

VILLAGE OF MICHIANA

BERRIEN COUNTY, MICHIGAN

Financial Report

June 30, 2006



THE JACKSON GROUP

CPA & Business Advisory Services

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|--------------------------|--|-------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Village of Michiana | County Berrien |
| Fiscal Year End June 30, 2006 | Opinion Date 02/27/07 | Date Audit Report Submitted to State 03/05/07 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

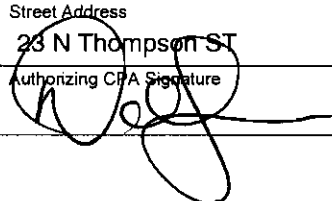
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|--------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) The Don Jackson Group PC | | Telephone Number 269-469-9300 | |
| Street Address 23 N Thompson ST | | City New Buffalo | State MI |
| Authorizing CPA Signature  | | Printed Name Don D Jackson | Zip 49117 |
| | | License Number 1616714 | |

**Village of Michiana
Michiana, Michigan
June 30, 2006**

Village Council and Officials

| | |
|-------------------------------|--------------------------|
| John Luce | President |
| Sheila Stein | President Pro Tem |
| John Llewellyn | Council Member |
| Bernard Spirgel | Council Member |
| Robert Wholen | Council Member |
| Elizabeth A. O'Donnell | Water Clerk |
| Frances M. McFay | Clerk/Treasurer |

VILLAGE OF MICHIANA
MICHIANA, MICHIGAN
JUNE 30, 2006

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INDEPENDENT AUDITORS' REPORT

Honorable Members of the Village Council
Village of Michiana
Berrien County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Michiana (the "Village"), as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Michiana's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Michiana as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 7 and page 28 - 31 are not required part of the basic financial statements but are supplemental information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Michiana basic financial statement. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Don Jackson Group, P.C.

The Don Jackson Group, PC

February 27, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information the activities of the Village as a whole and present longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government wide financial statements.

Financial Highlights

The Village's combined net assets decreased by 1.6% from a year ago – decreasing from \$1,537,225 to \$1,521,969. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase in net assets of \$20958 during the year, while the business-type activities experienced a decrease in net assets of \$36,279.

Overview of the Financial Statements

This report consists of four parts – *management's discussion and analysis* (this section), *the basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the Village:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Village's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Village government, reporting the Village's operations in more detail than the government-wide statements.
 - The *governmental funds statements* tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
 - *Proprietary fund statements* offer *short- and long-term* financial information about the activities the government operates like businesses, such as the water system.
 - *Fiduciary fund statements* provide information about the financial relationships, in which the Village acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required parts of the report, we have included a section with combining statements that provide details about our non-major governmental funds, which are added together and presented in single columns in the basis financial statements. The following table summarizes the major features of the Village's financial statements, including the portion of the Village government they cover and the types of information they contain. The remainder of the overview section of management's discussion and analysis explains the structure and contents of each of the statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements, Concluded

Major Features of the Village of Michiana's Government-Wide and Fund Financial Statements

| | Government-Wide Statements | Fund Statements | |
|---|--|--|--|
| | | Governmental Funds | Proprietary Funds |
| Scope | Entire Village government (except fiduciary funds) | The activities of the Village that are not proprietary or fiduciary, such as general, building and capital projects and street funds. | Activities the Village operates similar to private businesses: The water fund. |
| Required Financial Statements | <ul style="list-style-type: none"> Statement of net assets Statement of activities | <ul style="list-style-type: none"> Balance Sheet Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> Statement of net assets Statement of revenues, expenditures, and changes in fund balances. Statement of cash flows |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus. | Modifies accrual accounting and current financial resources focus. | Accrual accounting and economic resources focus. |
| Type of asset/liability information | All assets and liabilities, both financial and capital, and short-term and long-term. | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included. | All assets and liabilities, both financial and capital, and short-term and long-term. |
| Type of inflow/outflow information. | All revenues and expenses during year, regardless of when cash is received or paid. | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after. | All revenues and expenses during year, regardless of when cash is received or paid. |

Government-wide Statements

The government-wide statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The Statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Village's net assets and how they have changed. Net assets are the difference between the Village's assets and liabilities, which is one way to measure the Village's financial health, or position.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Over time, increases or decreases in the Village's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Village you need to consider additional nonfinancial factors such as changes in the Village's property tax base and condition of the Village's infrastructure.

The government-wide financial statements of the Village are divided into two categories:

- **Governmental activities** – Most of the Village's basic services are included here, such as general government, public safety, public works and recreation and culture.
- **Business-type activities** – The Village charges fees to customers to help it cover the costs of certain services it provides. The Village's water system is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds – not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law.
- The Village Council establishes other funds to control and manage money for a particular purpose (i.e. Building or Capital Projects) or to show that it is properly using certain taxes and grants (major and local streets).

The Village has the following two kinds of funds:

- **Government Funds** – Most of the Village's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the Village charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Village's enterprise funds (a type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Financial Analysis of the Village as a Whole

The Village's combined net assets were \$1,521,969. In a condensed format the following table below shows a breakdown of the net assets:

| | Governmental Activities | Business-Type Activities | Total |
|------------------------------|----------------------------|-----------------------------|----------------------|
| Current Assets | \$ 336,394 | \$ 483,433 | \$ 819,827 |
| Capital Assets | 448,381 | 271,888 | 720,269 |
| Total assets | \$ 784,775 | \$ 755,321 | \$ 1,540,096 |
| Total Liabilities | \$ 12,744 | \$ 5,383 | \$ 18,127 |
| Net Assets | | | |
| Invested in capital assets | \$ 448,381 | \$ 271,888 | \$ 720,269 |
| Restricted assets | 150,449 | 1,163 | 151,612 |
| Unrestricted assets | 173,201 | 476,887 | 650,088 |
| Total Net Assets | \$ 772,031 | \$ 749,938 | \$ 1,521,969 |

Unrestricted net assets – the part of net assets that can be used to finance day to day operations, increased by \$35,006 for the governmental activities. The current level of unrestricted net assets for governmental activities stands at \$200,249 for governmental activities, or about 39.4% of expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets as of the current date.

| | Governmental Activities | Business-Type Activities | Total |
|------------------------------------|----------------------------|-----------------------------|---------------------|
| Program Revenues | | | |
| Charges for services | \$ 72,775 | \$ 376,762 | \$ 449,537 |
| Operating Grants and Contributions | 62,086 | - | 62,086 |
| General Revenues | | | |
| Property Taxes | 413,341 | - | 413,341 |
| State Shared Revenues | 19,180 | - | 19,180 |
| Interest and Rentals | 26,883 | 14,453 | 41,336 |
| Net increase, FMV investments | - | 1,183 | - |
| Transfers | 3,288 | (3,288) | - |
| Miscellaneous | 9,651 | - | 9,651 |
| Total Revenues | \$ 607,204 | \$ 389,110 | \$ 995,131 |
| Program Expenses | | | |
| General Government | \$ 293,715 | \$ - | \$ 293,715 |
| Public Safety | 181,115 | - | 181,115 |
| Public Works | 97,230 | - | 97,230 |
| Recreation and Culture | 14,186 | - | 14,186 |
| Water | - | 425,389 | 425,389 |
| Total expenses | \$ 586,246 | \$ 425,389 | \$ 1,011,635 |
| Change in Net Assets | \$ 20,958 | \$ (36,279) | \$ (16,504) |

Governmental Activities

Total governmental revenues increased by \$23,332. The revenues for the current year reflect an increase in charges for services of \$21,686 due mainly to an increase in building inspector fees. The revenues include a \$12,625 planning grant. Property taxes increased by \$8,338 or by 2.1%. Expenditures decreased by \$40,166. The decrease can be attributed to reduction in road maintenance costs.. Employee benefit costs for health insurance increased \$14,982.

Business-Type Activities

The Village's business-type activities consist of the Water Fund. We provide water to the Village residents, the Village of Grand Beach and Michiana Shores. The water is purchased from Michigan City Indiana. In 2006, operating revenues increased by \$21,308 and expenditures increased by \$40,375. The increase in revenues reflects the increase in billing rate and an increase in usage. Expenditures for water purchases increased by \$41,856. The Village continues to review the rate structure and has retained the services of a rate consultant to adjust the revenues as needed.

The Village's Funds

Our analysis of the Village's major funds begins following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as state revenue funds for streets. The Village's major fund for 2006 included the General Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The General Fund pays for most of the Village's governmental services, including legislative, fire, police and other. The most significant is police, which incurred expenses of approximately \$156,114 in 2006 or 29% of the general fund expenditures. The service is supported by general revenue sources of the General Fund.

Capital Asset Administration

At the end of June 30, 2006, the Village had investment in capital assets for its governmental and business-type activities of \$721,803 (net of depreciation). This investment includes a broad range of capital assets, including land, buildings and improvements, furniture and equipment, and water lines. In addition, the Village has invested significantly in roads within the Village. The Village has chosen to not retroactively report any other infrastructure assets at June 30, 2003 and will only report any additions prospectively in accordance with G.A.S.B. #34.

Long-Term Debt

As the end of the current fiscal year, the Village had no outstanding debt.

Economic Factors and Next Year's Budgets and Rates

The Village anticipates revenues over expenditures in the governmental and business-type activity funds. There are no large capital expenditures planned and the Village will continue to build the unrestricted reserves.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

VILLAGE OF MICHIANA

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2006

| | Governmental Activities | Business-Type Activities | Total |
|-------------------------------------|------------------------------------|-------------------------------------|---------------------|
| Assets | | | |
| Cash and Cash Equivalents | \$ 250,004 | \$ 73,595 | \$ 323,599 |
| Certificates of Deposit | 20,000 | - | 20,000 |
| Investments | - | 419,124 | |
| Receivables, Net | 500 | 39,626 | 40,126 |
| Inventory | 500 | - | 500 |
| Internal Balances | 48,912 | (48,912) | - |
| Due from Other Governments | 10,040 | - | 10,040 |
| Prepaid Expenses | 6,438 | - | 6,438 |
| Capital Assets, Net | 448,381 | 271,888 | 720,269 |
| Total Assets | \$ 784,775 | \$ 755,321 | \$ 1,120,972 |
| Liabilities | | | |
| Accounts Payable | \$ 3,116 | \$ 4,440 | \$ 7,556 |
| Accrued and Other Liabilities | 9,628 | 943 | 10,571 |
| Total Liabilities | \$ 12,744 | \$ 5,383 | \$ 18,127 |
| Net Assets | | | |
| Invested in Capital Assts | \$ 448,381 | \$ 271,888 | \$ 720,269 |
| Restricted for Capital expenditures | 34,210 | 1,163 | 35,373 |
| Restricted for Public Works | 116,239 | - | 116,239 |
| Unrestricted | 173,201 | 476,887 | 650,088 |
| Total Net Assets | \$ 772,031 | \$ 749,938 | \$ 1,521,969 |

VILLAGE OF MICHIANA

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
June 30, 2006

| <u>Functions/Programs</u> | <u>Program Revenues</u> | | | <u>Net (Expenses) Revenues and Changes in Net Assets</u> | | |
|---------------------------------|-------------------------|---------------------------------|---|--|-------------------------------------|--------------|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| Primary Government | | | | | | |
| <i>Government Activities</i> | | | | | | |
| General Government | \$ 293,715 | \$ 72,775 | \$ 12,625 | \$ (208,315) | | \$ (208,315) |
| Public Safety | 181,115 | - | - | (181,115) | | (181,115) |
| Public Works | 97,230 | - | 48,172 | (49,058) | | (49,058) |
| Recreation and Culture | 14,186 | - | 1,289 | (12,897) | | (12,897) |
| Total Governmental Activities | \$ 586,246 | \$ 72,775 | \$ 62,086 | \$ (451,385) | | \$ (451,385) |
| <i>Business-Type Activities</i> | | | | | | |
| Water Fund | \$ 425,389 | \$ 376,762 | \$ - | | \$ (48,627) | \$ (48,627) |
| Total Government | \$ 1,011,635 | \$ 449,537 | \$ 62,086 | \$ (451,385) | \$ (48,627) | \$ (500,012) |
| General Revenues | | | | | | |
| Property Taxes | | | | \$ 413,341 | - | 413,341 |
| State Shared Revenues | | | | 19,180 | - | 19,180 |
| Net increase, FMV investments | | | | - | 1,183 | 1,183 |
| Interest and Rentals | | | | 26,883 | 14,453 | 41,336 |
| Transfers | | | | 3,288 | (3,288) | - |
| Miscellaneous | | | | 9,651 | - | 9,651 |
| Total General Revenues | | | | \$ 472,343 | \$ 12,348 | \$ 484,691 |
| Change in net assets | | | | \$ 20,958 | \$ (36,279) | \$ (15,321) |
| Net Assets- Beginning | | | | 751,073 | 786,217 | 1,537,290 |
| Net Assets Ending | | | | \$ 772,031 | \$ 749,938 | \$ 1,521,969 |

VILLAGE OF MICHIANA

GOVERNMENTAL FUND BALANCE SHEET

June 30, 2006

| | General | Non-Major Governmental Funds | Total |
|---------------------------------------|------------|------------------------------------|------------|
| ASSETS | | | |
| Cash and cash equivalents | 91,119 | \$ 144,675 | \$ 235,794 |
| Cash and cash equivalents, restricted | - | 34,210 | 34,210 |
| Receivables | 500 | - | 500 |
| Due from other funds | 71,514 | 66,388 | 137,902 |
| Due from other governments | 2,089 | 7,951 | 10,040 |
| Inventory, at cost | 500 | - | 500 |
| Prepaid expense | 6,438 | - | 6,438 |
| Total assets | 172,160 | 253,224 | 425,384 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Accounts payable | 3,116 | - | 3,116 |
| Due to other funds | 59,646 | 29,344 | 88,990 |
| Accrued wages and taxes | 9,628 | - | 9,628 |
| Total liabilities | 72,390 | 29,344 | 101,734 |
| Fund balances: | | | |
| Reserved | | | |
| Reserved for inventory | 500 | - | 500 |
| Reserved for capital outlay | - | 34,210 | 34,210 |
| Reserved for prepaids | 6,438 | - | 6,438 |
| Reserved for street maintenance | - | 116,239 | 116,239 |
| Unreserved | 92,832 | 73,431 | 166,263 |
| Total fund balances | 99,770 | 223,880 | \$ 323,650 |
| Total liabilities and fund balances | \$ 172,160 | \$ 253,224 | |

Amounts reported for governmental activities in the statement of net assets are different because:

* Capital assets used in governmental activities are not financial resources and are not reported in the funds

448,381

Net assets of Governmental Activities

\$ 772,031

**GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**
June 30, 2006

| | General | Non-Major Governmental Funds | Total Governmental Funds |
|--|-------------------------|------------------------------------|--------------------------------|
| Revenues: | | | |
| Property taxes | \$ 413,341 | \$ - | \$ 413,341 |
| State-shared revenues | 19,180 | 48,172 | 67,352 |
| Interest and penalties | 7,047 | 4,302 | 11,349 |
| Costs and fines | 55 | - | 55 |
| Licenses and permits | 500 | 68,181 | 68,681 |
| Miscellaneous fees | 9,135 | - | 9,135 |
| Rents and royalties | 14,000 | - | 14,000 |
| Equipment rent | 1,534 | - | 1,534 |
| Grants | 12,625 | - | 12,625 |
| Donations | - | 1,289 | 1,289 |
| Miscellaneous revenues | 4,555 | - | 4,555 |
| Total revenues | <u>\$ 481,972</u> | <u>\$ 121,944</u> | <u>\$ 603,916</u> |
| Expenditures: | | | |
| Council | \$ 172,398 | \$ - | \$ 172,398 |
| Elections | 9 | - | 9 |
| Office | 32,735 | 23 | 32,758 |
| Hall and grounds | 31,552 | - | 31,552 |
| Planning and zoning | 15,671 | - | 15,671 |
| Building inspection | - | 27,073 | 27,073 |
| Tree inspection | 596 | - | 596 |
| Police | 156,114 | - | 156,114 |
| Fire | 25,001 | - | 25,001 |
| Public Works | 7,558 | 17,089 | 24,647 |
| Sanitation | 41,031 | - | 41,031 |
| Parks and recreation | 8,902 | - | 8,902 |
| Beaches | 5,284 | - | 5,284 |
| Capital outlay | 37,414 | 27,940 | 65,354 |
| Total expenditures | <u>\$ 534,265</u> | <u>\$ 72,125</u> | <u>\$ 606,390</u> |
| Excess (deficiency) of revenues over expenditures | <u>(52,293)</u> | <u>49,819</u> | <u>(2,474)</u> |
| Other financing sources (uses): | | | |
| Operating transfers-in | \$ 3,288 | \$ 27,713 | \$ 31,001 |
| Operating transfers-out | (20,000) | (7,713) | (27,713) |
| Total other financing sources (uses) | <u>\$ (16,712)</u> | <u>\$ 20,000</u> | <u>\$ 3,288</u> |
| Excess (deficiency) of Revenue and Other Sources Over Expenditures and Other Uses | <u>\$ (69,005)</u> | <u>\$ 69,819</u> | <u>\$ 814</u> |
| Fund balances, beginning of year | 168,709 | 164,382 | |
| Fund balances, end of year | <u><u>\$ 99,704</u></u> | <u><u>\$ 234,201</u></u> | |

Amounts reported for governmental activities in the statement of activities are different because:

- * Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

20,144

Change in Net Assets of Governmental Activities

\$ 20,958

June 30, 2006

| | Water Fund |
|-------------------------------------|------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 73,595 |
| Investments | 419,124 |
| Accounts receivables | 36,111 |
| Accrued interest receivable | 3,515 |
| Due from other funds | - |
| Due from State | - |
| Inventory, at cost | - |
| Prepaid expenses | - |
| | <hr/> |
| Total current assets | \$ 532,345 |
| Noncurrent assets: | |
| Capital assets | <hr/> 271,888 |
| | <hr/> |
| Total assets | \$ 804,233 |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable | \$ 5,383 |
| Due to other funds | <hr/> 48,912 |
| | <hr/> |
| Total current liabilities | \$ 54,295 |
| NET ASSETS | |
| Invested in capital assets | \$ 271,888 |
| Restricted for capital improvements | 1,163 |
| Unrestricted | <hr/> 476,887 |
| | <hr/> |
| Total net assets | <hr/> \$ 749,938 <hr/> |

VILLAGE OF MICHIANA**PROPRIETARY FUND STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS****June 30, 2006**

| | Water Fund |
|--|---------------|
| Operating Revenues: | |
| Charges for services | \$ 366,262 |
| Service connections | 10,500 |
| | <hr/> |
| Total operating revenues | 376,762 |
| | |
| Cost of purchased water | 251,189 |
| | <hr/> |
| Gross Operating Margin | \$ 125,573 |
| | |
| Operating expenses | |
| Salaries and wages | \$ 67,317 |
| Payroll taxes | 5,156 |
| Hospital | 18,065 |
| Retirement benefits | 5,000 |
| Supplies | 14,413 |
| Professional services | 21,970 |
| Telephone | 946 |
| Insurance and bonds | 2,936 |
| Utilities | 6,293 |
| Depreciation | 21,678 |
| Rentals | 8,000 |
| Miscellaneous expenses | 2,426 |
| | <hr/> |
| Total operating expenses | \$ 174,200 |
| | |
| Operating income (loss) | \$ (48,627) |
| | |
| Nonoperating Revenues (Expenses) | |
| | |
| Interest income | 14,453 |
| Net increase, FMV investments | 1,183 |
| | <hr/> |
| Total nonoperating revenue (expenses) | \$ 15,636 |
| | |
| Income Before Contributions and Transfers In (Out) | \$ (32,991) |
| | |
| Capital Contributions | - |
| Transfers In (Out) | (3,288) |
| | <hr/> |
| Change in Net Assets | \$ (36,279) |
| | |
| Net assets, beginning of year | 786,217 |
| | <hr/> |
| Net assets, end of year | \$ 749,938 |

| | Water Fund |
|--|---------------------------|
| Cash Flows From Operating Activities | |
| Receipts from Customers | \$ 384,591 |
| Payments to Suppliers | (307,076) |
| Payments to Employees and benefits | (95,538) |
| Other Receipts (Payments) | - |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (18,023)</u> |
| Cash Flows From Noncapital Financing Activities | |
| Operating Subsidies and Transfers to Other Funds | - |
| Cash Flows From Capital and Related Financing Activities | |
| Purchases of Capital Assets | <u>\$ -</u> |
| Cash Flow From Investing Activities | |
| Interest and Dividends | \$ 10,938 |
| Investments purchased | (579,310) |
| Investments sold | <u>197,024</u> |
| Net Cash Provided by (Used in) Investing Activities | <u>\$ (371,348)</u> |
| Net Increase in Cash and Cash Equivalents | \$ (389,371) |
| Cash and Cash Equivalents-Beginning | <u>462,966</u> |
| Cash and Cash Equivalents-Ending | <u><u>\$ 73,595</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating Income (Loss) | \$ (48,627) |
| Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities | |
| Depreciation Expense | 21,678 |
| Change in Assets and Liabilities | |
| Receivables, net | 7,829 |
| Accounts Payable | 1,097 |
| Accrued wages | <u>-</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$ (18,023)</u></u> |

Note 1. DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Michiana is located in Berrien County, Michigan and has a population mix of local and second homeowners. The Village of Michiana operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, public safety (police and fire), utilities services, recreation and planning and zoning.

The Village Council is made up of the Village President, President Pro-tem, and three trustees. The Village Clerk and Treasure are appointed positions.

The accounting policies of the Village of Michiana (the "Village") conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village.

A. Reporting Entity

As required by accounting principles generally accepted in the United States: GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*: these financial statements present all financial activities of the Village of Michiana (primary government). The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Village of Michiana contain all the funds controlled by the Village Council.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED.

B. Government-Wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED.

Revenues are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Property Taxes – The Village's property taxes attach as an enforceable lien on July 1st, on the taxable valuation of property (as defined by State statutes) located in the Village and payable on September 15. The Village's 2005 ad valorem tax is levied and collectible on July 1st, 2005 and it is recognized as revenue in the current year when the process of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 taxable valuation of the Village totaled 51.15 million, on which ad valorem taxes levied which consisted of 8.0815 mills for the Village's operating purposes. These amounts are recognized in the General Fund financial statements as taxes receivable – current or as tax revenue.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation, Concluded.

The Village reports the following major governmental funds.

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Village reports the following major proprietary fund:

The Water Fund accounts for the activities of the water distribution system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and building function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water fund also recognized the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity.

Bank Deposits and Investments -- Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value and consist of only certificates of deposit greater than 90 day.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on September 15, at which time penalties and interest are assessed.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Village has chosen not to retroactively report any other infrastructure assets at June 30, 2003 and will only report any additions prospectively in accordance with G.A.S.B. #34.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there were no assets under construction and no interest expense to capitalize.

D. Assets, Liabilities, and Net Assets or Equity, Concluded.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

| | |
|-----------------------|----------------|
| Buildings | 40 to 60 years |
| Building Improvements | 15 to 30 years |
| Land Improvements | 10 to 20 years |
| Water and Sewer Lines | 50 to 75 years |
| Vehicles | 3 to 5 years |
| Office Equipment | 5 to 7 years |
| Computer Equipment | 3 to 7 years |

Compensated Absences (Vacation and Sick Leave) – It is the policy of the Village to pay all unused sick and vacation pay benefits accumulated during the year, at the end of each budget year. Therefore there is no liability for unpaid accumulated vacation and sick leave since the government has no policy to accumulate them beyond the year end.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED

and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designations of fund balance represent tentative management plans that are subject to change.

Estimates – The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures.

E. Accounting Change

Effective July 1, 2003, the Village implemented the provision of Governmental Accounting Standards Board Statement No. 34, Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments ("GASB 34"). Changes to the Village's financial statements as a result of GASB 34 are as follows:

A Management's Discussion and Analysis ("MD&A") section providing analysis of the Village's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using full accrual accounting for all of the Village's activities have been provided.

Note 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY.

BUDGETS AND BUDGETARY ACCOUNTING:

The Village performs the following procedures in establishing the budgetary data reflected in the general purpose financial statements:

1. The Finance and Budget Commission prepares a complete itemized budget and submits it to the council at its first meeting in May. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted by the Finance and Budget Commission to obtain taxpayer comments.
3. The budget is formally adopted by the regular Council meeting in June.
4. Transfers or amendments to the budget may only be approved by the Council.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Budgets for all the funds are adopted on a basis consistent with generally accepted accounting principles.

The budge document presents information by fund, function. The legal level of budgetary control adopted by the governing board (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Village to have its budget in place by July 1st. Expenditures in excess of the amounts budgeted is violation of P.A. 621 of 1978, Section 18(1) as amended.

State law permits Villages to amend its budgets during the year. There was no amendment made during the year.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Major Budgeted Funds – During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

NOTES TO THE FINANCIAL STATMENTS
June 30, 2006

Note 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, CONCLUDED.

General Fund:

| | Amended Budget | Actual | Variance |
|------------------------------|-------------------|-----------|------------|
| General Government – Council | \$133,050 | \$172,398 | \$(39,348) |
| General Government – Office | 28,880 | 32,735 | (3,855) |
| Hall and Grounds | 30,300 | 31,552 | (1,252) |
| Public safety – Police | 153,900 | 156,114 | (2,214) |
| Parks and recreation | 5,000 | 8,902 | (3,902) |

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and had no impact on the financial results of the Village.

Fund Deficits – The Village has no accumulated fund balance/retained earning deficits in their reported funds.

Note 3. DEPOSIT AND INVESTMENTS

The Village of Michiana has investments in a bank-administered trust account. Investments are carried at fair market value. Michigan Compiled Laws, Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village Council has designated two banks for the deposit of Village funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CD's but not the remainder of State statutory authority as listed above.

The Village's deposits and investment policy are in accordance with statutory authority.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Note 3. DEPOSIT AND INVESTMENTS, CONTINUED

At June 30, 2006, the Village's deposits and investments were reported in the basic financial statements in the following categories:

| | Governmental Activities | Business-Type Activities | Total |
|---------------------------|----------------------------|-----------------------------|-------------------|
| Cash and Cash Equivalents | \$ 250,004 | \$ 73,595 | \$ 323,599 |
| Certificates of deposits | 20,000 | - | 20,000 |
| Total | \$ 270,004 | \$ 73,595 | \$ 343,599 |

The bank balance of the primary government's deposits is \$323,034, of which \$311,925 is covered by federal depositary insurance.

Restricted Cash:

The Water Fund reports restricted assets for cash deposited in bank accounts in accordance with the water agreement with the Town of Michiana Shores.

The Village of Michiana has a long-term lease with Town of Michiana Shores, Indiana for the use of the water system that is connected with the Village's water system. The Village sells water to the Indiana customers and maintains and repairs the system which includes the portion located in Indiana.

A portion of the net operating income of the Village Water Fund is allocated to the Towns of Michiana Shores, based upon the percentage of gallons of water used by Indiana customers relative to the total gallonage used in the system. The allocation of this income is set aside in a restricted cash account for the benefit of the Indiana customers for the upgrading of their distribution system, subject to the approval and control of the Michiana Water Authority. All upgrading is paid directly to the contractor, upon written direction by the Board of the Town of Michiana Shores.

The restricted cash account at June 30, 2006 consists of the following:

| | |
|--|-----------------|
| Allocation to the Town of Michiana Shores, Indiana at June 30, 2005 | \$ 1,163 |
| Allocation of income | - |
| Interest earned | 1 |
| Amount spent through June 30, 2006 | - |
| Total restricted for the Town of Michiana Shores, Indiana | \$ 1,164 |

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Note 4. INVESTMENTS

It is the policy of the Village of Michiana to invest its funds in a manner that will provide the highest investment return, with the maximum security, while meeting the daily cash flow needs of the Village, and complying with all state statutes governing the investment of public funds.

The Village's investments are categorized to give an indication of the level of risk assumed by the Village at June 30, 2006.

Category 1 Insured or registered, or securities held by the Village or its agent in the Village's name

Category 2 Uninsured and unregistered investments for which the securities are held by the counterpart's trust department or agent in the Village's name.

Category 3 Uninsured and unregistered investments for which the securities are held by the counterpart's trust department or agent but not in the Village's name

| | Category 1 | Category 2 | Category 3 | Carrying Amount | Market Value |
|---|------------------|-------------|-------------------|-------------------|-------------------|
| Primary Government | | | | | |
| Cash and equivalents | \$ 20,000 | \$ - | \$ - | \$ 20,000 | \$ 20,000 |
| Government and agency bonds | - | - | 419,124 | 419,124 | 419,124 |
| Total investments reported in statements | <u>\$ 20,000</u> | <u>\$ -</u> | <u>\$ 419,124</u> | <u>\$ 439,124</u> | <u>\$ 439,124</u> |

Of the Village's \$782,723 of investments, \$419,124 is invested in U.S. Government agency bonds rated AAA by Standard & Poor's ratings. The remaining \$20,000 is invested in long-term certificates of deposit.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Note 5. RECEIVABLES

Receivables as of year end for the Village's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Water Fund | Non-Major Funds | Total |
|---------------------|-----------------|------------------|--------------------|------------------|
| Accounts receivable | \$ 500 | \$ 39,726 | \$ - | \$ 40,226 |
| Intergovernmental | 2,089 | - | 7,951 | 10,040 |
| Less: Allowance | <u>-</u> | <u>(100)</u> | <u>-</u> | <u>(100)</u> |
| Net receivables | <u>\$ 2,589</u> | <u>\$ 39,626</u> | <u>\$ 7,951</u> | <u>\$ 50,166</u> |

Note 6. CAPITAL ASSETS

Capital asset activity of the Village for the current year was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|--------------------------|-------------------------|--------------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 33,115 | \$ - | \$ - | \$ 33,115 |
| Capital assets being depreciated | | | | |
| Building and improvements | \$ 482,054 | \$ - | \$ - | \$ 482,054 |
| Equipment | 543,517 | 65,349 | (22,476) | 586,390 |
| Subtotal | \$ 1,025,571 | \$ 65,349 | \$ (22,476) | \$ 1,068,444 |
| Less: Accumulated Depreciation | <u>(630,449)</u> | <u>(45,205)</u> | <u>22,476</u> | <u>(653,178)</u> |
| Net Capital Assets Being Depreciated | <u>\$ 395,122</u> | <u>\$ 20,144</u> | <u>\$ -</u> | <u>\$ 415,266</u> |
| Governmental activities capital total capital assets-net of depreciation | <u><u>\$ 428,237</u></u> | <u><u>\$ 20,144</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 448,381</u></u> |

Depreciation expense was charged to programs of the primary government as follows:

| | |
|--------------------------|----------|
| Governmental Activities: | |
| General Governments | \$45,205 |

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Note 6. CAPITAL ASSETS, CONCLUDED

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------------|--------------------|---------------------------|
| <i>Business-Type Activities</i> | | | | |
| Capital assets not being depreciated | | | | |
| Land | <u>\$ 3,049</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,049</u> |
| Capital assets being depreciated | | | | |
| Building and improvements | <u>\$ 36,234</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 36,234</u> |
| Infrastructure | <u>799,980</u> | <u>-</u> | <u>-</u> | <u>799,980</u> |
| Equipment | <u>65,418</u> | <u>-</u> | <u>-</u> | <u>65,418</u> |
| Subtotal | <u>\$ 901,632</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 901,632</u> |
| Less: Accumulated Depreciation | <u>(611,115)</u> | <u>(21,678)</u> | <u>-</u> | <u>(632,793)</u> |
| Net Capital Assets Being Depreciated | <u>\$ 290,517</u> | <u>\$ (21,678)</u> | <u>\$ -</u> | <u>\$ 268,839</u> |
| Business-Type activities capital total | | | | |
| capital assets-net of depreciation | <u><u>\$ 293,566</u></u> | <u><u>\$ (21,678)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 271,888</u></u> |

Depreciation was charged to programs for the business-type activities as follows:

Water \$21,678

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Note 7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables

| Fund | Interfund Receivables | Fund | Interfund Payable |
|---------------|--------------------------|--------------|----------------------|
| General | \$ 71,514 | Water | \$ 48,912 |
| Local Street | 6,742 | Major Street | 6,742 |
| Building | 28,562 | Local Street | 22,602 |
| Major Streets | 31,084 | General fund | 59,646 |
| | | | <u>59,646</u> |
| Total | <u>\$ 137,902</u> | Total | <u>\$ 137,902</u> |

Interfund transfers

| Fund | Transfer IN | Fund | Transfers Out |
|------------------|------------------|--------------|------------------|
| General | \$ 3,288 | Water | \$ 3,288 |
| Local Street | 7,713 | Major Street | 7,713 |
| Capital projects | 20,000 | General fund | 20,000 |
| | | | <u>20,000</u> |
| Total | <u>\$ 31,001</u> | Total | <u>\$ 31,001</u> |

Note 8. RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village carries insurance for these risks. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9. MICHIANA SHORES VOLUNTEER FIRE DEPARTMENT

The Village of Michiana has entered into a long-term contract with the Michiana Shores Volunteer Fire Department to provide fire protection services for the Village of Michiana. The contract is effective for the period July 1, 2003 through June 30, 2006. The contract requires quarterly installments totaling the following on an annual basis:

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance With Amended Budget |
|---|--------------------|-------------------|-------------------|------------------------------------|
| Beginning of Year Fund Balance | \$ 151,682 | \$ 151,682 | \$ 151,682 | |
| Resources (Inflows) | | | | |
| Property taxes | 404,000 | 404,000 | 413,341 | 9,341 |
| State-shared revenues | 14,800 | 14,800 | 19,180 | 4,380 |
| Interest and penalties | 3,500 | 3,500 | 7,047 | 3,547 |
| Costs and fines | 50 | 50 | 55 | 5 |
| Miscellaneous fees | 4,100 | 4,100 | 9,135 | 5,035 |
| Rents and royalties | 26,000 | 26,000 | 14,000 | (12,000) |
| Equipment rent | 9,500 | 9,500 | 1,534 | (7,966) |
| Miscellaneous revenues | 1,000 | 1,000 | 4,555 | 3,555 |
| Amounts Available for Appropriation | <u>\$ 614,632</u> | <u>\$ 614,632</u> | <u>\$ 620,529</u> | |
| Charges to Appropriations (Outflows) | | | | |
| General Government | | | | |
| Council | \$ 133,050 | \$ 133,050 | \$ 172,398 | 39,348 |
| Elections | 1,650 | - | 9 | 9 |
| Office | 28,880 | 28,880 | 32,735 | 3,855 |
| Hall and grounds | 30,300 | 30,300 | 31,552 | 1,252 |
| Planning and zoning | 18,750 | 18,750 | 15,671 | (3,079) |
| Public Safety | | | | |
| Police | 153,900 | 153,900 | 156,114 | 2,214 |
| Fire | 25,100 | 25,100 | 25,001 | (99) |
| Public Works | | | | |
| Public Works | 16,125 | 16,125 | 7,558 | (8,567) |
| Sanitation | 37,285 | 41,030 | 41,030 | - |
| Recreation and Culture | | | | |
| Parks and recreation | 5,000 | 5,000 | 8,902 | 3,902 |
| Beaches | 9,500 | 9,500 | 5,284 | (4,216) |
| Capital outlay | 5,000 | 40,000 | 37,414 | (2,586) |
| Transfers Out (In) | 18,500 | 18,500 | 16,712 | (1,788) |
| Total Charges to Appropriations | <u>\$ 483,040</u> | <u>\$ 520,135</u> | <u>\$ 550,380</u> | |
| Budgetary Fund Balance - June 30, 2006 | <u>\$ 131,592</u> | <u>\$ 94,497</u> | <u>\$ 70,149</u> | |

June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance With Amended Budget |
|---|-------------------------|-------------------------|-------------------------|------------------------------------|
| Beginning of Year Fund Balance | \$ 53,239 | \$ 53,239 | \$ 53,239 | |
| Resources (Inflows) | | | | |
| State-shared revenues | 33,100 | 33,100 | 32,931 | (169) |
| Interest and penalties | <u>1,100</u> | <u>1,100</u> | <u>1,228</u> | 128 |
| Amounts Available for Appropriation | <u>\$ 87,439</u> | <u>\$ 87,439</u> | <u>\$ 87,398</u> | |
| Charges to Appropriations (Outflows) | | | | |
| Public Works | | | | |
| Road maintenance | 12,930 | 12,930 | 3,591 | (9,339) |
| Winter maintenance | 6,450 | 6,450 | 1,891 | (4,559) |
| Administrative costs | 500 | 500 | | |
| Operating transfers | <u>7,750</u> | <u>7,750</u> | <u>7,713</u> | |
| Total Charges to Appropriations | <u>\$ 27,630</u> | <u>\$ 27,630</u> | <u>\$ 13,195</u> | |
| Budgetary Fund Balance - June 30, 2006 | <u><u>\$ 59,809</u></u> | <u><u>\$ 59,809</u></u> | <u><u>\$ 74,203</u></u> | |

| | Original Budget | Amended Budget | Actual | Variance With Amended Budget |
|---|-------------------------|-------------------------|-------------------------|------------------------------------|
| Beginning of Year Fund Balance | \$ 24,518 | \$ 24,518 | \$ 24,518 | |
| Resources (Inflows) | | | | |
| State-shared revenues | 15,500 | 15,500 | 15,241 | (259) |
| Interest and penalties | 800 | 800 | 1,172 | 372 |
| Operating transfers | <u>7,750</u> | <u>7,750</u> | <u>7,713</u> | (37) |
| Amounts Available for Appropriation | <u>\$ 48,568</u> | <u>\$ 48,568</u> | <u>\$ 48,644</u> | |
| Charges to Appropriations (Outflows) | | | | |
| Public Works | | | | |
| Road maintenance | 7,320 | 7,320 | 5,327 | (1,993) |
| Winter maintenance | 6,120 | 6,120 | 1,281 | (4,839) |
| Administrative costs | 500 | 500 | - | (500) |
| Operating transfers | <u>-</u> | <u>-</u> | <u>-</u> | - |
| Total Charges to Appropriations | <u>\$ 13,940</u> | <u>\$ 13,940</u> | <u>\$ 6,608</u> | |
| Budgetary Fund Balance - June 30, 2006 | <u><u>\$ 34,628</u></u> | <u><u>\$ 34,628</u></u> | <u><u>\$ 42,036</u></u> | |

OTHER SUPPLEMENTAL INFORMATION

| | Streets | Building Inspector Fund | Capital Projects Fund | Total |
|---------------------------------------|-------------------|-------------------------------|-----------------------------|-------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 99,806 | \$ 44,869 | \$ - | \$ 144,675 |
| Cash and cash equivalents, restricted | - | - | 34,210 | 34,210 |
| Receivables | - | - | - | - |
| Due from other funds | 37,826 | 28,562 | - | 66,388 |
| Due from other governments | 7,951 | - | - | 7,951 |
| Prepaid expense | - | - | - | - |
| Total assets | <u>\$ 145,583</u> | <u>\$ 73,431</u> | <u>\$ 34,210</u> | <u>\$ 253,224</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - |
| Due to other funds | 29,344 | - | - | 29,344 |
| Accrued wages and taxes | - | - | - | - |
| Total liabilities | <u>\$ 29,344</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 29,344</u> |
| Fund balances: | | | | |
| Reserved | | | | |
| Reserved for capital outlay | \$ - | \$ - | \$ 34,210 | \$ 34,210 |
| Reserved for prepaids | - | - | - | - |
| Reserved for street maintenance | 116,239 | - | - | 116,239 |
| Unreserved | - | 73,431 | - | 73,431 |
| Total fund balances | <u>116,239</u> | <u>73,431</u> | <u>34,210</u> | <u>223,880</u> |
| Total liabilities and fund balances | <u>\$ 145,583</u> | <u>\$ 73,431</u> | <u>\$ 34,210</u> | <u>\$ 253,224</u> |

VILLAGE OF MICHIANA
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
As of June 30, 2006**

| | Streets | Building Inspector Fund | Capital Projects Fund | Total Governmental Funds |
|--|--------------------------|-------------------------------|-----------------------------|--------------------------------|
| Revenues: | | | | |
| State-shared revenues | \$ 48,172 | \$ - | \$ - | \$ 48,172 |
| Interest and penalties | 2,400 | 779 | 1,123 | 4,302 |
| Licenses and permits | - | 68,181 | - | 68,181 |
| Donations | - | - | 1,289 | 1,289 |
| Miscellaneous revenues | - | - | - | - |
| Total revenues | <u>\$ 50,572</u> | <u>\$ 68,960</u> | <u>\$ 2,412</u> | <u>\$ 121,944</u> |
| Expenditures: | | | | |
| Office | \$ - | \$ - | \$ 23 | \$ 23 |
| Building inspection | - | 27,073 | - | 27,073 |
| Public Works | 12,090 | - | 5,000 | 17,090 |
| Capital outlay | - | - | 27,940 | 27,940 |
| Total expenditures | <u>\$ 12,090</u> | <u>\$ 27,073</u> | <u>\$ 32,963</u> | <u>\$ 72,126</u> |
| Excess (deficiency) of Revenues over expenditures | <u>\$ 38,482</u> | <u>\$ 41,887</u> | <u>\$ (30,551)</u> | <u>\$ 49,818</u> |
| Other financing sources (uses): | | | | |
| Operating transfers-in | \$ 7,713 | \$ - | \$ 20,000 | \$ 27,713 |
| Operating transfers-out | (7,713) | - | - | (7,713) |
| Total other financing sources (uses) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 20,000</u> | <u>\$ 20,000</u> |
| Excess (deficiency) of Revenue and Other Sources Over (Under) Expenditures and Other Uses | <u>\$ 38,482</u> | <u>\$ 41,887</u> | <u>\$ (10,551)</u> | <u>\$ 69,818</u> |
| Fund balances, beginning of year | <u>77,757</u> | <u>41,864</u> | <u>44,761</u> | <u>164,382</u> |
| Fund balances, end of year | <u><u>\$ 116,239</u></u> | <u><u>\$ 83,751</u></u> | <u><u>\$ 34,210</u></u> | <u><u>\$ 234,200</u></u> |

June 30, 2006

| | Major Street Fund | Local Street Fund | Total |
|------------------------------------|----------------------|----------------------|-------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 44,424 | \$ 55,382 | \$ 99,806 |
| Due from other funds | 31,084 | 6,742 | 37,826 |
| Due from other governments | 5,437 | 2,514 | 7,951 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 80,945</u> | <u>\$ 64,638</u> | <u>\$ 145,583</u> |
| LIABILITIES AND FUND EQUITY | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | \$ - | \$ - | \$ - |
| Due to other funds | 6,742 | 22,602 | 29,344 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | <u>\$ 6,742</u> | <u>\$ 22,602</u> | <u>\$ 29,344</u> |
| Fund equity: | | | |
| Reserved for street maintenance | 74,203 | 42,036 | 116,239 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and fund equity | <u>\$ 80,945</u> | <u>\$ 64,638</u> | <u>\$ 145,583</u> |

VILLAGE OF MICHIANA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
STREET FUNDS
June 30, 2006

| | Major Streets | Local Streets | Total |
|--|------------------|------------------|------------|
| Revenues: | | | |
| State-shared revenues | \$ 32,931 | \$ 15,241 | \$ 48,172 |
| Interest and penalties | 1,228 | 1,172 | 2,400 |
| Total revenues | \$ 34,159 | \$ 16,413 | \$ 50,572 |
| Expenditures: | | | |
| Road maintenance: | | | |
| Wages | \$ 1,687 | \$ 1,614 | \$ 3,301 |
| Fringe benefits | 124 | 126 | 250 |
| Supplies | 1,028 | 2,355 | 3,383 |
| Equipment rental | 752 | 1,232 | 1,984 |
| Routine maintenance | - | - | - |
| | \$ 3,591 | \$ 5,327 | \$ 8,918 |
| Winter maintenance: | | | |
| Wages | \$ 895 | \$ 1,032 | \$ 1,927 |
| Fringe benefits | 68 | 79 | 147 |
| Supplies | 928 | 170 | 1,098 |
| Equipment rental | - | - | - |
| | \$ 1,891 | \$ 1,281 | \$ 3,172 |
| Road maintenance administration: | | | |
| Other administrative costs | \$ - | \$ - | \$ - |
| Total Expenditures | 5,482 | 6,608 | 12,090 |
| Excess (deficiency) of revenues over expenditures | 28,677 | 9,805 | 38,482 |
| Other financing sources (uses): | | | |
| Operating transfers-in | \$ - | \$ 7,713 | \$ 7,713 |
| Operating transfers-out | (7,713) | - | (7,713) |
| Total other financing sources (uses) | \$ (7,713) | \$ 7,713 | \$ - |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | \$ 20,964 | \$ 17,518 | \$ 38,482 |
| Fund balances, beginning of year | 53,239 | 24,518 | 77,757 |
| Fund balances, end of year | \$ 74,203 | \$ 42,036 | \$ 116,239 |



Honorable Members of the Council
Village of Michiana
Berrien County, Michigan

In planning and performing our audit of the general purpose financial statements of the Village of Michiana for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Village of Michiana's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

Reportable conditions:

Accounts receivable

Internal Control Design

The internal control design of the Village should be reviewed to insure maximum internal control. Procedures should be formalized to insure adequate control of assets. There needs to be established a greater awareness of the requirements of an internal control system.

Segregation of duties

During our consideration of the Village's internal controls and our assessment of fraud risk, we noted that the Village does not have an adequate overall internal control design. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.). Currently, the same individual

accepts cash receipts; records cash receipts, prepares bank deposits and makes bank deposits. This issue had been reported in the Village's audit comments and recommendations for the fiscal year ended June 30, 2005.

While this is a common occurrence in small organizations due to limited number of employees, the Village Council should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We recommend that the Village review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend the Village Council provide a greater review and supervision of employee functions and procedures.

Reconciliation of Water System Revenue and Receivables.

During our analysis of the Water System Fund charges for services and related accounts receivable, we noted that the Village does not currently reconcile the accounts receivable balance in the general ledger with the Water Funds computerized receivable system. The receivables should be reconciled on a monthly basis. In addition, the Water fund is a proprietary fund and should be recorded on an accrual basis. Currently the Village records the revenues in the general ledger on a cash basis. We recommend that the Village records the charges when billed.

Physical safeguards

During the course of our audit fieldwork, we noted that adequate physical safeguards over the accounting records are not being maintained. Specifically, the Village's primary records are not filed or organized on a timely basis. There were several piles of primary records and work papers. This increases the likelihood that records may be lost, not recorded or inappropriately accessed by unauthorized personnel.

Budgetary procedures

During our consideration of the Village's internal controls, we noted that although the Village appropriately adopted budgets for the General and all Special Revenue Funds, the budgets are not periodically compared with actual results. In order to remain in compliance the Uniform Budgeting and Accounting Act (Act 2 of 1968, Budget Sections as amended) and for the Village's budget to be a meaningful document and useful management tool, management should prepare periodic interim budget vs actual financial statements for Council to review.

Furthermore, the Uniform Budgeting and Accounting Act requires the Council to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

We recommend that the Village management provide the Village Council periodic financial reports. We also recommend that the Village Council review such financial reports preferably on a monthly basis, but at least on a quarterly basis. The financial reports should be generated directly from the Village's general ledger and include fiscal year-to-date revenues and expenditures compared to their budgeted amounts. Management should recommend and Council should provide for budget amendments prior to exceeding amounts appropriated.

Payroll disbursements process

During our testing of the payroll disbursements process, we noted several errors in the payroll process. We noted that the township clerk was delinquent in submitting payroll deposits and there were errors in the actual returns themselves. Payroll processing, including the proper filing of forms, can be a very complex process even for the highly trained individual, and the Village can have individuals with no formal training doing this process.

We believe the Village should consider engaging the services of an outside payroll processing company to process the Village's payroll. For a relatively small fee, an outside payroll processor could prepare the necessary payroll reports, print paychecks or pay advices, withhold and file all payroll taxes, and prepare and file the required payroll tax returns for the appropriate states. In addition, by using an outside payroll processor, the Village will have another party responsible for the filings and payments and improve internal controls over payroll.

Equipment rental charges

During the course of our fieldwork, we noted that equipment rental charges were not recorded on a timely basis. In some instances the revenue was recorded to the general fund, but related expense was not recorded to the charged fund. In other instances, the expense was charged to the appropriate fund, but the revenue was not recorded in the receiving fund. Equipment rental charges are assessed between the funds of the Village to accurately reflect the actual cost of the various functions of the government. Because the journal entries had not been recorded in the general ledger to reflect equipment rental charges, both the equipment rental revenues and equipment rental expenditures were understated.

We recommend the Village periodically record the appropriate journal entries to reflect equipment rental revenue and expenditures in the general ledger. We also recommend that reconciliations periodically be performed to assure that the sum of all rental revenues equals the sum of all equipment rental expenditures/expenses.

Interfund transactions

In a system of fund accounting, many transactions must be allocated between funds. These may include payroll related expenditures, equipment rental, insurances, other expenditures. To properly reflect the actual costs of the various functions of the government, these allocations should be recorded in the appropriate fund on a timely basis. On a monthly basis, the interfund receivables should be reconciled to insure all charges and receipts have been properly recorded. Currently, receivables and payables are accumulating from year to year in the various funds. These balances should be paid on a monthly basis.

Journal Entries and bank transfers

During our fieldwork, we examined various journal entries to comply with the new Statement on Auditing Standards (SAS) 99. We noted that entries are initiated without approval or oversight. In addition transfers of cash are not approved by the council. We recommend that journal entries be sequentially numbered and a paper journal record of the entry be maintained. All journal entries and transfers should be reviewed, initialed and dated by both the preparer and independent reviewer.

Bank account reconciliations

Bank statements, in some instances were accumulated for several months before they were reconciled to the appropriate general ledgers. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements by the appropriate Village official. As the Village uses a computerized accounting system and only one set of ledgers is prepared, another Village official should independently review and approve the reconciliation after it has been completed.

Reports and communications

During the course of our audit, we noted that the reports submitted to council contained numerous material errors. Without accurate reports, the council is unable to perform the necessary fiduciary responsibilities of oversight and control. The reporting system should be reviewed to insure that the output enables appropriate review and approval of transactions and accounting entries. Periodic reports should be reviewed for accuracy and discrepancies should be investigated and resolved. The Village's personnel should be reviewed to insure that they have the proper training and qualification to perform the necessary duties to insure proper accounting of the Village. In a small organization, the duties of the clerk/treasurer requires a higher degree of knowledge of governmental accounting and management.

Other comments and recommendations:

Based on our audit, we noted that the

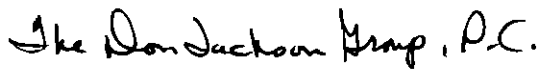
Village has not formally adopted written procedures and policies for certain areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we suggest that the Village develop, formally adopt, and implement written procedures and policies in the following areas:

- Disaster recovery plan – We suggest the Village adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Village and detail how the Village would continue to operate in the absence of those critical areas of operation.
- Conflict of interest policy – A conflict of interest policy will clarify the Village's position on ethical behavior and communicate that position to employees and Council members. We suggest the Village develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and Council members.
- Fraud prevention policy – A policy on fraud prevention should define the scope of the policy and include a definition of actions constituting fraud and the appropriate procedures to follow when reporting fraud or suspicions of fraud.
- Capital asset management policy – We suggest that the council adopt a policy for the acquisition and disposal of capital assets. The policy should specify the dollar threshold to be used for asset capitalization and that the disposal of capital assets requires formal approval by the Village Council. The policy should also indicate estimated useful lives for each major classifications of capital assets. Adoption of the capital asset management policy should be documented in the minutes of the Council meetings.

- Accounting policies and procedures manual – We suggest the Village formally document any accounting procedures that are currently in place and supplement this with any Council policies that may be required to support those procedures.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the June 30, 2006 financial statements, and this report does not effect our report on those financial statements dated February 27, 2007. We have not considered the internal controls since the date of our report.

This report is intended solely for the information and use of the Village of Michiana Council, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties. However, a report issued in connection with an audit of a local government is a matter of public record.



The Don Jackson Group, PC

February 27, 2007